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Indonesia

Grain and Feed

Wheat Update (February 2001)

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Report Highlights:

After enduring a severe economic downturn in 1997-98 and heavy competition from low-priced, imported flour in 1999-00, the domestic flour milling industry is experiencing renewed vitality. Buyoed by a growth spurt in consumption (up 20 percent between MY98 and MY99), total wheat imports in MY99 were around 3.7 mmt and in MY00 should reach 3.9 mmt. U.S. market share is forecast to reach approximately 21 percent in MY00, up from approximately 17 percent in MY98 and 11 percent in MY99. The PL-480, Section 416(b), and the GSM-102 programs have helped to expand the market for U.S. wheat in Indonesia.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Section I. Situation and Outlook

Production

Indonesia's wheat flour mills, who rely entirely on imports since there is no domestic wheat production, report that they are currently running at 70-80 percent capacity compared to 40-50 percent during the lowest point of the economic downturn. Post estimates that flour production in MY99 (July99-June00) was around 2.6 mmt, almost 24 percent higher than MY98 (around 13% higher than FAS/Jakarta previous estimate of 2.3 mmt). This is due not only to economic recovery but also to the remarkable growth in consumption of wheat-based foods. That trend shows no signs of reversal, and Post forecasts that MY00 flour production will be around 3.3 mmt, a 26 percent increase from MY99 (38% higher than our previous forecast of 2.4 mmt). Growth could be even more pronounced should the Indonesian Flour Millers Association (Aptindo-Asosiasi Produsen Tepung Terigu Indonesia) be successful in proving their industry was hurt by flour "dumped" in their market and retaliatory measures against imports be taken. There are currently three flour classifications produced by local mills (high, medium, and low protein) and sold under twenty different brand names.

Consumption

Moderate economic recovery in calendar year 2000 has improved consumer purchasing power and contributed to higher flour consumption. But additional demand, beyond that caused by economic growth, has sparked demand for noodles and bakery products. With a population of 212 million people, even a small change in per capita consumption equals large gains in imports. In MY00, FAS/Jakarta forecasts that per capita flour consumption will be around 14 to 15 kilogram which equals 3.1 mmt of flour (equivalent to 4.2 mmt of wheat). A significant 31 percent increase in wheat consumption from MY99. Previous gains in consumption include a 19 percent increase in MY99 to 3.2 mmt from 2.7 mmt in MY98. Among the reasons diets are shifting toward noodles and bakery products are that they are competitively priced and easy to serve.

Stocks

Higher imports, including arrivals of U.S. wheat purchased under the PL-480 Title I and Section 416(b) programs, and improved economic conditions coupled with the anticipation of higher wheat flour demand gave mills the confidence to raise stock levels in MY99 to around 1.2 mmt (including wheat in silos and in vessels). A small decrease in ending stocks is forecast for MY00, to 916,000 mt. Grain stocks are managed mainly by the flourmills but flour stocks are also stored by importers, distributors and traders.

Trade

Indonesia is by far a net importer of wheat and wheat flour. With the incorporation of wheat flour (in wheat grain equivalent) into import data, and the country's economic recovery, and the

growth spurt in consumption of wheat flour products, Post has revised upward its MY99 wheat import figure to 3.72 mmt (including 687,000 mt grain equivalent of flour), a notable 19 percent higher than MY98 and 24 percent higher than the previous estimate (ID0016). Supported by indications of increasing sales of flour, Post forecasts imports at 3.9 mmt in MY00. The wheat component of that trade however is expected to go up as flour imports will decline due to tougher regulations and stricter enforcement of those regulations.

With help from the United States Department of Agriculture (USDA)/PL-480 Title I and Section 416(b) programs, U.S. market share started picking up from 2 percent in MY97 to an average of 14 percent during MY98 and MY99 and is forecast to reach 21 percent of total wheat imports in MY00. In addition, the use of GSM-102 has also increased the sales of U.S. wheat to Indonesia from US\$ 4.2 million during FY99 to US\$ 15.6 million in FY00. GSM-102 has not only provided much needed access to credit, but has also enabled access to credit at lower interest rates, making U.S. wheat more competitive. Major wheat suppliers (not including flour) in MY99 include: the United States (11%), Australia (53%) and Canada (21%). Reports of a US\$ 200 million government-to-government credit deal between the Government of Indonesia and the Government of India coupled with a 100,000 mt sale of wheat already on the books, lead to a forecast of imports from India of about 400,000 mt. The lower-gluten Indian wheat must be blended with other types of wheat to maintain flour quality, so it is doubtful that Indian wheat imports will reach over 10 percent of total imports.

An influx of cheap, imported flour was widely reported in MY99 and led to an anti-dumping investigation still underway. In MY00, imports have tailed off a bit. Major suppliers of flour during MY00 are still the United Arab Emirates (30%), Germany (17%), and Belgium (13%). A small quantity of flour from the United States was also imported, i.e., 87 mt in MY99 and 761 mt in MY00. With stricter implementation of a standard quality and various new local brands priced to compete with imports, Post forecasts flour imports will decline in MY00.

Indonesia currently has a relatively large excess milling capacity and started to export in MY00 with 2,039 mt of flour (equivalent to 3 thousand mt of wheat grain) mainly to Singapore (77%) and East Timor (33%). The average export price is US\$ 187/mt.

Prices

Retail flour prices during CY00 in Jakarta traditional markets are stable at an average of Rp. 2,497/kg or US\$ 260/mt at the current exchange rate (Rp. 9,615/US\$1). This is lower compared to the average price in CY99, i.e., Rp. 2,712/kg or US\$ 282/mt. The current average price during Jan-Feb, 2001 is 2,500/kg or US\$ 260/mt.

The average of retail flour prices in supermarkets is around 23 percent higher compared to the average prices in traditional markets. During January-December, 2000 the average price of flour in supermarkets in Jakarta was Rp. 3,102/kg, equivalent to US\$ 323/mt at the current exchange rates. The average price during the first six weeks of 2001 is Rp. 3,311/kg or US\$ 344/mt.

Policy

The National Standard Agency (BSN-Badan Standard Nasional) has approved a new standard for wheat flour which includes requirements for fortification. The new standard requires that all flour should be fortified with iron (Fe), Zinc (Zn), vitamin B (Riboflavin and Thiamin) and folic acid. To take further action, the GOI is preparing a notification to the World Trade Organization (WTO) and plans to enforce the new regulation in 2001. This requirement will be applied to both local and imported flour. The cost of fortification is minor and is not expected to affect flour prices. In addition, the Canadian Government and Unicef (United Nations) have already given their commitment to help the funding of this fortification program.

II. Statistical Section

Table of Production, Supply and Demand for Wheat

PSD Table						
Country:	Indonesia					
Commodity:	Wheat					
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		07/1998		07/1999		07/2000
Area Harvested	0	0	0	0	0	0
Beginning Stocks	250	250	700	700	700	1221
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	3117	3117	3900	3724	3700	3900
Jul-Jun Imports	3117	3117	3900	3724	3700	3900
Jul-Jun Import U.S.	533	533	0	426	0	800
TOTAL SUPPLY	3367	3367	4600	4424	4400	5121
TOTAL Mkt. Yr. Exports	9	9	5	3	5	5
Jul-Jun Exports	9	9	5	3	5	5
Feed Dom. Consumption	0	0	0	140	0	140
TOTAL Dom. Consumption	2658	2658	3895	3200	3695	4200
Ending Stocks	700	700	700	1221	700	916
TOTAL DISTRIBUTION	3367	3367	4600	4424	4400	5121

Note: Unit is in thousand metric tons.

Data in "Old" column reflect FAS/Washington data. For Post's previous PS&D refer to report ID0016.

Trade**Import Trade Matrix: Wheat (July99 - June00)**

Import Trade Matrix	
Country:	Indonesia
Commodity:	Wheat
Time period:	July99-June00
Imports for	1999
U.S.	425
Others	
Australia	1,607
Canada	637
EU	337
American Samoa	20
Singapore	11
Total for Others	2,612
Others not listed	0
Grand Total	3,037

Note: Unit 1,000 MT.

Import Trade Matrix: Wheat Flour (July99 - June00)

Import Trade Matrix	
Country:	Indonesia
Commodity:	Wheat Flour
Time period:	July99-June00
Units	MT
Imports for	1999
U.S.	761
Others	
United Arab Emirate	151,694
Germany, FR	84,568
Belgium	66,216
Australia	46,417
France	42,158
Netherland	35,005
Singapore	18,409
Turkey	15,709
Korea, Rep. of	12,036
Total for Others	472,212
Others not listed	35,734
Grand Total	508,707
Grain Equivalent	687,442

Source: Central Statistics Agency (BPS - Badan Pusat Statistik), Jakarta.

Wheat Flour Prices

Average Retail Prices of Plain Flour (Rp/Kg) (at the Jakarta Markets)												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1999	3,040	2,950	2,783	2,790	2,760	2,605	2,653	2,600	2,588	2,595	2,610	2,568
2000	2,545	2,490	2,483	2,505	2,493	2,485	2,488	2,500	2,503	2,528	2,505	2,436
% chg	(16)	(16)	(11)	(10)	(10)	(5)	(6)	(4)	(3)	(3)	(4)	(5)
Source: Center for Market Information (PIP), the Ministry of Industry & Trade; http://www.dprin.go.id/pip												
Note: Blue Triangle Brand.												

Average Retail Prices of Plain Flour (Rp/Kg) (at the Jakarta Supermarkets)												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1999	3,666	3,946	3,815	3,253	3,232	3,437	3,131	3,018	2,836	3,026	3,091	2,863
2000	3,016	2,805	3,023	2,709	3,070	3,165	3,205	3,197	3,271	3,184	3,327	3,254
% chg	(18)	(29)	(21)	(17)	(5)	(8)	2	6	15	5	8	14
Source: Center for Market Information (PIP), the Ministry of Industry & Trade; http://www.dprin.go.id/pip												
Note: Blue Triangle Brand.												

Table of Exchange Rates

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2,000	7414	7517	7598	7988	8728	8742	9055	8290	8780	9395	9530	9595
2001	9450	9615										
Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.												
Note: - February 2001 exchange rate is quoted for February 5, 2001. - BPS data available up to July 2000.												

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